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CANADA AND THE TRANSFORMATION OF THE EAST EUROPEAN ECONOMIES: POLICY CHALLENGES OF THE 1990s

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INTRODUCTION

As the new decade begins, the international environment is changing rapidly. The upheavals in Eastern Europe, the unification of Germany, and the collapse of Eastern regional institutions such as the Warsaw Pact and the Council for Mutual Economic Assistance (COMECON) are all having fundamental effects on the international system and on the East-West relationship.[1] The European Community is being strengthened and enlarged (at least to encompass what was formerly East Germany), the concept of NATO is being rethought, and there is a search for a new, broader definition of international security and an appropriate institutional framework for it.

Just as there has been a revolution in the military/security dimension of East-West relations, so too have events pressed for a rethinking of economic relations. The West no longer uses its trading relationships to prosecute the Cold War. Discussion today centres on how, and to what degree, the West might provide aid to prevent economic collapse and to ensure the peaceful transition to market economies and political democracies in the East. As a major trading nation, and a member of the Western alliance, these changes will demand some deft policy decisions on the part of Canada. Canada must anticipate the possibility that its weight and influence will decrease within an enlarged international trade and financial system where major new actors — a united Germany in particular, but also possibly a revitalized and reintegrated Soviet Union — will play a role. This paper will survey Canada's past principles and priorities in its relations with the Eastern economies, with a view to suggesting what initiatives are needed to meet the challenges of the East European transformation.

POLICY EVOLUTION

Historically, Canada's policies towards Eastern Europe have centred on the Soviet Union. The USSR has been regarded not only as the "bloc" leader, and the dominant economic as well as political force in the area, but also as the most important partner for Canada over a wide range of potential relations. In the 1980s, roughly three-quarters of Canada's trade turnover with Eastern Europe was with the Soviet Union.

Canada's policies towards the area have ebbed and flowed with the tide of East-West relations. In 1956, the Canadian government took early advantage of the 'thaw' that followed Stalin's death to sign a trade agreement with the Soviet Union. As a consequence, in the late 1950s Canada became the first Western exporter to supply grain to the USSR on a regular basis. Contacts with the smaller East European economies developed

thereafter and more slowly.[2] The development of economic relations accelerated in the favourable climate of East-West détente in the early 1970s; there was an exchange of prime ministerial visits with the USSR and the signing of a series of state-to-state agreements.[3] Canada's policy interest cooled in the late 1970s, as East-West détente waned. A new, Conservative government in Ottawa participated in the international response to the invasion of Afghanistan by imposing a sweeping set of sanctions against the Soviets, thus ushering in a policy of confrontation in the early 1980s. Official programmes were gradually restored after 1982, and by the end of the decade Canada had returned to an active policy of cooperation, as the implications of Soviet *perestroika* became increasingly apparent. The return was slow and cautious, however, and an overview of Canadian foreign policy published earlier this year concluded, "indeed, it took Ottawa rather longer than its allies to recognize the breadth and significance of the changes underway in the Soviet Union."[4]

Over the postwar decades, Canada's unique relationship with the United States has affected its relations with the other superpower in various ways. The détente of the 1970s found a new Liberal government anxious to assert foreign policy independence from the United States and to adopt a differentiated policy towards Eastern Europe that would clearly signal this. In the economic sphere, the expansion of relations with the Eastern countries accorded with the Trudeau government's goal (the "Third Option") of reducing Canadian dependence on the US economy through trade diversification. Canada therefore jumped on the East-West cooperation bandwagon, adopting a position in this regard closer to its West European allies than to the United States.

In the 1980s, Progressive Conservative governments had different foreign policy priorities. They were determined to dismantle the nationalist economic policies of their Liberal predecessors and to work towards building a closer relationship with the United States, culminating in the 1988 Free Trade Agreement. Assertive foreign policy positions that ran counter to Washington's Cold War line at the time were avoided.

In fact, there was little inclination to adopt such positions. The Conservatives largely shared the American view of the Soviet Union. Long in opposition, Conservative leaders had been accustomed to criticizing the Liberal government's foreign policy, and were especially sensitive to the human rights issues in Eastern Europe that had provided them with ammunition in the House of Commons. The party's traditional base was in Western Canada, where ethnic groups concerned with these issues, and opposed to policies of cooperation, are politically strong.

Nor was the government under organized pressure from the Canadian business community to develop economic relations with Eastern Europe. This can be explained by the volume and structure of Canada's trade with the European COMECON economies. Trade with the area has represented a very small share of Canada's foreign trade. Grain (especially wheat) exports have dominated Canada's commerce with the USSR and have been a major component of trade with other area countries, notably Poland and the German Democratic Republic. The grain trade has been important to Canadian agriculture which is highly export dependent (about 75% of Canada's grain production is destined for export). In the 1980s, the USSR alone purchased over one-fourth of Canada's grain exports. Nevertheless, even including grains, exchanges with the COMECON Seven have never exceeded two percent of Canada's total trade turnover, and averaged only 0.68% in the second half of the 1980s (five-year period 1985-89). Without grains, the area's trade share in this period drops to 0.27%.

Policy Principles

Several recurring themes are discernible in the development of Canada's economic relations with the Soviet Union and its allies: these are the traditional 'principles' which guided Canadian policy towards these economies over most of the postwar period.

Those responsible for Canada's East-West trade policy have tended to stress its multilateral context. Canada has valued multilateral approaches and has sought to play a relatively active role in them. Issues of military security, human rights, international trade and finance — which bear significantly on Canada's relations with Eastern Europe — have been the subject of Canadian policy within the framework of NATO, the United Nations, the Conference on Security and Cooperation in Europe (CSCE), the Organization for Economic Cooperation and Development (OECD) and the Western economic summits.

Bilateral relations have been heavily state-to-state in character. This was determined not only by the centralized nature of the systems on the Eastern side but also, on the Canadian side, by the leading role in bilateral initiatives taken by the federal government,

beginning with the 1955 visit to Moscow of Lester Pearson. In the sphere of the important grain trade, for example, negotiations have been conducted by state trading monopolies on both sides.

Canada has sought to 'normalize' economic relations with the COMECON countries by treating them in the same regulatory manner as trading partners in the rest of the world. These relations with the area have been largely free therefore from the myriad of restrictions and regulations that Washington has imposed on its economic relations with the East.

A certain paradox in Canadian policy may be noted here. Because trade with Eastern Europe is negligible, the economic cost of resorting to it as an instrument of foreign policy has been slight. However, since commerce provides most of the substance of bilateral relations with Eastern Europe, there has been a tendency to emphasize a business-without-politics approach.

Finally, a certain ambivalence has long existed in Canada's export promotion policies towards the East. This ambivalence has hinged, on the one hand, on the continued importance of the grain trade to farmers and to the balance of payments. On the other hand, the government has sought to diversify the composition of exports through a variety of official programmes. These include export credit supports to promote sales of manufactured goods, especially machinery and equipment. (The areas of greatest success in this regard have been equipment and technology for the energy — oil, gas, nuclear power — and forestry sectors.) Sensitive to the difficulty of expanding exports of manufactures while also maintaining grain exports — in view of the large trade surpluses that have resulted — the government has sought to treat grain as separate from other areas in state-to-state negotiations.

The principle of insulating economic relations from politics was abandoned at the beginning of the 1980s. In response to the Soviet invasion of Afghanistan, the Canadian government, along with other Western nations, invoked a wide ranging set of sanctions against the USSR. The measures announced by Prime Minister Joe Clark in January, 1980, included a partial grain embargo, tighter export controls, suspension of all official visits and programmes, and the decision not to renew the official line of credit to the USSR. The sanctions were slowly removed and official relations gradually restored after the death of Soviet leader Leonid Brezhnev in November, 1982. Ottawa showed little interest, however, in returning to the pro-active East-West trade policies of the 1970s except with regard to the grain trade. After the grain embargo was lifted, a new, long-term agreement was signed and grain exports boomed. By that time, however, Canada's trade policy attentions were directed elsewhere. Canada was now focussed on the application of sanctions to South Africa and to the development of new economic relationships — especially with the United States — but also with the dynamic Pacific Rim area and with the rapidly expanding European Common Market.

With its 1980 sanctions, the government set the tone for Canada's East-West trade policy in the first half of the decade. The return of the Conservatives to power in September, 1984, was followed six months later by the accession of Mikhail Gorbachev to the Communist Party leadership in Moscow. Ironically, it thus fell upon a Conservative government to set Canadian policy in response to the growing 'revolution' in the East that dominated international affairs in the second half of the 1980s.

CANADIAN POLICY IN THE NEW EAST-WEST CONTEXT

In the new era of East-West relations ushered in by the Gorbachev reforms, Canadian policy has been more reactive than innovative. Although the process of restoring relations was virtually complete by the end of 1988, no new policy initiatives with the Soviet Union and Eastern Europe had been undertaken. The few, cautious statements on developments in the Eastern countries that emerged from Ottawa advocated a wait-and-see posture and emphasized the need for a concerted NATO policy position. The government's White Paper on Defence and Canada's expulsion of Soviet embassy officials in 1988 — to considerable public fanfare — further demonstrated that Cold War proclivities were still strong in official Ottawa. As the Eastern reforms gathered momentum, however, the Mulroney government came under mounting public pressure to take more positive action. The growing contrast between the government's do-nothing stance and the activism by this time of the Canadian business community was particularly awkward for a government which looked to business as a major source of political support.

The 1980s witnessed the rise of a new phenomenon in Canadian economic relations with Eastern Europe which had a growing effect on policy. This was the creation of business and trade councils that serve as both channels through which

influence on policy can be exercised, and as instruments through which policy may be pursued. Until this time, there had been no organized business constituency to advocate the expansion of relations with the Eastern countries. Only in 1983 was a Canadian-East European Trade Council organized through the initiative of the International Division of the Canadian Chamber of Commerce. The Council provided support for firms engaged in trade with the Soviet Union and Eastern Europe, and in 1985 signed a cooperation agreement with the Soviet Chamber of Industry. In 1988, a Canada-USSR Business Council was formed on the initiative of a group of prominent Canadian businessmen interested in the new opportunities made possible by *perestroika*. By 1990, the Business Council had a large Soviet membership as well as over 120 Canadian member firms, and had opened offices in both Toronto and Moscow. The developments in Eastern Europe in 1989 prompted the organization of other bilateral councils, with Poland, Hungary and Czechoslovakia.

The rapid course of political events in Poland and Hungary in 1989, and Western responses to them, provoked the Canadian government into belated action. At the July economic summit, the PHARE (Pologne Hongrie: Assistance à la Restructuration Economique) international aid programme for Poland and Hungary was launched. The Commission of the European Communities was given responsibility for coordinating the efforts of the twenty-four Western countries (Group of 24), including Canada, which agreed to participate. In these circumstances, Prime Minister Mulroney announced in October the Canadian aid component. Directed primarily to Poland, this $32 million package promised food aid and a special credit insurance facility to support purchases of urgently needed imports.

THE MULRONEY VISIT TO MOSCOW

It was the Prime Minister's scheduled visit to the Soviet Union in November, 1989, which was perceived in Ottawa as the opportunity to demonstrate that official policy was not lagging behind domestic and foreign perceptions of the reform processes underway in Eastern Europe. Fortuitously, the dramatic chain of events in Eastern Europe in the fall of 1989 heightened the Canadian public's attention to the occasion.

During the Soviet visit, Prime Minister Mulroney went out of his way to show support for the Gorbachev reforms. An official statement issued by his office on the eve of the visit asserted that "it is clear that the revolutionary changes championed by President Gorbachev offer the best chance for East-West relations in the postwar era." The Prime Minister echoed these thoughts in his address at a Kremlin state dinner on the first day of his visit, affirming his "deep conviction that it is very clearly in everyone's best interest that your reforms succeed." He added that Canada "welcomed the greater integration of the USSR into the world economy" and would "support progressive Soviet participation in the international trade and payments system as the reforms of Perestroika create the conditions for success." He specifically mentioned in this regard close cooperation between the USSR and the OECD, as well as Soviet observer status and eventual membership in the GATT. In a Moscow speech two days later, the Prime Minister summed it up as follows: "East-West relations are at their most promising point since the war. And Canada-Soviet relations are poised to make a new beginning." The official pronouncements of the Mulroney visit thus clearly marked an abandonment of the equivocal tone of previous government statements.

The Canadian government was anxious to create the public impression that new substance as well as new rhetoric had emerged from this visit. While in Moscow, the Prime Minister signed no less than ten bilateral agreements for cooperation in a variety of areas, ranging from peaceful uses of nuclear energy to combatting narcotic drug abuse. Although all had an economic dimension, two of these agreements are of particular significance for future commercial intercourse. The first, a full-scale agreement for reciprocal investment protection, is a measure clearly designed to encourage Canadian firms to invest in the Soviet economy. This agreement is the first of its kind for Canada, and provides official guarantees not hitherto available to Canadian investors abroad. The second is an umbrella accord which authorizes individual Canadian provinces and Soviet republics to establish direct cooperation in economic, scientific, technical and cultural areas. The announcement during the visit of the intended opening of a Canadian Consulate in Kiev took on special economic significance in light of this agreement.

The Prime Minister also used the occasion to demonstrate official support for Canadian business initiatives. He invited a large (240-strong) business delegation to accompany him to the Soviet Union and, together with his Soviet counterpart, Prime

Minister Ryzhkov, opened the inaugural meeting of the new Canada-USSR Business Council.

Ottawa seemed determined to maintain this policy momentum in the months following the Mulroney visit. To the package of aid for Poland, the government added a contribution of $30 million to a stabilization fund to support convertibility of the Polish zloty. It also established a $10 million fund to support private sector development projects in Poland and Hungary. Lastly, Canada joined other Western countries in extending General Preferential Tariff treatment to these two East European countries which were perceived as having undertaken the most far-reaching political and economic reforms.

A full-scale review of Canada's East European policy was undertaken in the first half of 1990 and the results were summarized in a speech in Toronto on May 26 by Secretary of State for External Affairs Joe Clark. Most substantive was the announcement of a broadening of the programme of economic support to include other East European countries and the creation of a Task Force on Central and Eastern Europe to elaborate the details of an expanded programme of assistance to the area. To this end, Canada is one of the forty-one participating nations in the new European Bank for Reconstruction and Development. More traditional was Clark's stress on multilateral approaches. Canada has long been a strong supporter of the CSCE. It is now among the advocates of an expanded role for the organization, recognizing its broad mandate in security, political, economic and social matters, "so that it becomes the drawing board for the new European architecture."

The Mulroney government has tried to demonstrate that it is doing more than just keeping up (or catching up) with its allies in policies towards the rapidly changing Eastern economies. It has initiated proposals, at the multilateral level, designed to find a middle ground between Western Europe and the United States on East-West economic issues. In this respect, it has followed the time-honoured Canadian desire to serve as an interpreter and moderator, if not broker, between its European and American allies, building on its special ties with Washington and personal relations with American leaders. Following his Moscow trip, for example, Mulroney proposed that Gorbachev be briefed on Western summit discussions as a step towards bringing the Soviet Union into the mainstream of international economic cooperation. Furthermore, in remarks before the 1990 Houston economic summit, the Prime Minister seemed anxious to bridge the gap between German and American proposals on financial aid to the Soviet Union. He did not commit Canada to additional assistance, however, and the summit partners remained divided, with Canada joining those calling for caution and more study on the question.

STRATEGIC EXPORT CONTROLS

An area of significant policy evolution in relations with Eastern Europe is strategic export controls. This process has occurred within the secrecy surrounding the activities of the Western alliance's Coordinating Committee for Multilateral Strategic Export Controls (COCOM), so that it is impossible to determine to what extent Canada has played the role of a leader or follower.[5]

The United States has long been the principal force behind the Western strategic embargo, and it has traditionally maintained the most extensive national list of embargoed items. Canada's list has been closer to the lists of the European members of COCOM, who have always been more liberal in their trade relations with Eastern Europe than the US.

The differences between Canada and the United States on the question of strategic export controls and other areas of commercial policy with communist countries has sometimes led to conflict between the American and Canadian governments. The source of this conflict has been the diversion of some trade between the US and Eastern Europe through Canadian subsidiaries and affiliates of US firms (although the bulk of such trade has been routed through West European subsidiaries). Because of its stricter control system, Washington has occasionally sought to block such diversions through actions which have raised the issue of "extraterritoriality" in Canada-US relations. Allied pressure for liberalization, and Soviet-American détente, led to a considerable relaxation of the Western strategic embargo by the mid-1970s, thus easing the extraterritoriality issue.

Under US pressure, however, the embargo was tightened again in the 1980s. Among the sanctions announced by the Clark government in January, 1980, was a general review of Canadian regulation of "strategic" and "high technology" exports to the USSR with a view towards the reimposition of a stronger control system. This set the stage for a revision of the list of embargoed items according to

the COCOM doctrine of "higher walls around smaller areas." The aim was the tighter control of technologies, as well as goods, regarded as "strategic" because of their potential "dual" (civilian and military) use.[6] At the same time, the administration of the control system was strengthened, including enforcement at the border and prosecution of offenders.

On its own initiative, Canada had already begun to streamline its export license procedures when developments in Eastern Europe sparked a broad reassessment of the entire COCOM system. A pivotal meeting of COCOM in June, 1990, resulted in a decision to ease controls on computers, telecommunications equipment and machine tools as of 1 July (thirty items were eliminated from the control list of strategic industrial goods and technologies). Negotiations began on 1 October to draw up a new, simplified list that will be limited to high technology items only. There is also to be more favourable treatment for East European countries such as Czechoslovakia, Hungary and Poland which have engaged in the most far-reaching political reforms and which have agreed to set up their own export control system and permit verification. Moreover, exports to East Germany have been removed *de facto* from control because of German reunification. A new US Export Administration Act, scheduled for the fall of 1990, will establish the new lines of American policy in this area.

Not only has the scope of the strategic embargo been reduced but there is a shift in focus. The new targets of alliance measures are likely to be states in the Third World regarded as potentially hostile, with concern centred on their capability for chemical and biological warfare, and the production of ballistic missiles.[7] There is even the possibility of cooperation between East and West in the enforcement of a new system of strategic controls.

FUTURE POLICY DIRECTIONS

Since 1988, Canada has succeeded in reorienting its policy towards the Soviet Union and Eastern Europe. It has moved from inertia bred on persisting Cold War attitudes to active support for the processes of East European reform. Concrete action has been largely in the form of participation in multilateral assistance programmes. As yet, Canada has failed to extend the new policy approach very far to meet the challenges specific to its own trade and financial relations with the countries of the area.

The outlook for these relations in their traditional form holds many uncertainties. Grain exports to the USSR may well have had their heyday. They had already fallen off in the late 1980s, and new Soviet policies are directed at reducing them further. Self-sufficiency in grains has been a long-standing but elusive goal of Soviet policy. This goal may remain elusive, but it is being approached with new vigour and imagination. Even at present levels of output, if the Soviet Union could eradicate the excessive losses in harvesting — transport and storage consume an estimated 20-30 percent of the crop — it would virtually eliminate the need for grain imports. Future Soviet imports are likely to be more concentrated in feed than food grains, and Canada is at a competitive disadvantage here with the United States.

In these circumstances, and with the broader uncertainties of the present Soviet situation, renegotiation of the Canada-USSR grain agreement which expires on 31 July 1991, is somewhat problematic. At the very least, the USSR can be expected to demand greater flexibility in any future purchase commitments and softer forms of payment. Meanwhile, in the first four years of the current five-year agreement, the Soviet Union had fulfilled all but a few million tons of its 25 million metric ton minimum purchase commitment.

The traditional relationship faces other challenges. Under *glasnost*, the mega-projects characteristic of past Soviet economic development are coming under mounting criticism in the USSR, on technical, social, environmental and financial grounds. Moreover, the Soviet republics are gaining greater influence over such investments. While not spelling the end of the capital projects in the Soviet Union on which Canadian official export development efforts have long concentrated, this does mean that new approaches are required. Similar considerations apply in the smaller East European markets.

In rethinking the Canadian-Soviet commercial relationship, careful account must be taken of the Soviet Union's emerging new role in international trade and investment in oil. The Soviet Union's position as an international supplier has been greatly strengthened by market developments resulting from the Kuwait crisis and by the scaling down of its long-standing COMECON commitments to Eastern Europe. At the same time, Soviet reforms and East-West détente are opening up to the West unprecedented new possibilities for cooperation with the Soviet Union in the development of its energy production and export capacity.

New Eastern import policies and priorities raise other challenges for Canadian trade policy. Now at the top of import priorities are equipment, technology and know-how for the expansion and modernization of long neglected light industries and for the distribution of consumer goods and services. Canadian firms will face stiff competition for this market from their counterparts in the United States, Europe and Japan. In the agricultural sector, it is now the down-stream areas of agribusiness that have the greatest export potential.

Electronics is another potential sector for Canadian firms in Eastern markets. Here the liberalization of strategic export controls is a key factor. As the barriers to Western exports of high technology drop, competition is rising among Western suppliers. It is important that future policy not place Canadian firms at a competitive disadvantage in this process.

Financing must necessarily be an important component of relations in any of these areas, given the severe balance of payments difficulties that all of the Eastern countries continue to face. New government credits have been announced, but Canadian commercial banks have yet to emerge from the isolationism into which they withdrew during the financial crisis of the early 1980s.

The historical imbalance in trade with Eastern Europe (especially with the Soviet Union) takes on greater significance in the new circumstances. The problem is to reduce the imbalance without drastically curtailing the volume of trade. Disregarding credits — which neither side wants to see play the dominant role in future trade expansion that they did in the 1970s — this means that Canada will have to buy more from its Eastern trading partners.[8] Canadian policy cannot therefore be exclusively preoccupied with export promotion.

Trade is not the whole story. With the opening up of the Soviet and East European economies to foreign investment, Canada's economic relations with them have broadened significantly. In fact, much of the recent action at the business level has centred on the establishment of joint enterprises in the Soviet Union and Eastern Europe under new regulatory conditions. By mid-1990, some thirty-five Canadian-Soviet joint ventures had been officially registered in the USSR (27 had been established in Poland). Given Canadian firms' limited commercial experience in these countries, this is a comparatively strong showing. The Canadian-Soviet joint ventures tend to be concentrated in the service sector, mostly in hotel and restaurant services. Only a few Canadian investments were in manufacturing: all-terrain, tracked vehicles, automotive parts, communications equipment. In terms of capital investment, they reflect the risks of an uncertain investment environment and mirror the generally small scale of Western investments.

These investments have tremendous potential for Canada's future relations with Eastern Europe. Although small at present, they are ready to be developed as the Eastern economies open up further in the course of their marketization and privatization. Direct Canadian investment is a potential channel not only to national but also to regional markets, as Eastern Europe is increasingly integrated into the European whole.

Policy measures such as the investment protection agreement with the Soviet Union are a step in the right direction. Canadian firms that embark on equity ventures in Eastern Europe are pioneers, settlers in a new economic landscape. They need encouragement and support in adapting to the difficult and uncertain environment of an Eastern Europe in transition. Programmes are required to help them assess accurately the problems and risks involved and to find appropriate solutions or hedges for them. The new business councils offer a medium through which government support of this nature can be channelled.

In sum, Canada has begun to set the policy basis for measures to meet the challenges of the East European transformation. The current activism in the business community is an encouraging development that broadens and strengthens support for the new policy direction. The Canadian government should lead, not follow, in the development of a new economic relationship with Eastern Europe. Clearly there is a new calculus in East-West relations, of which trade is a significant component. The move towards enhancing prosperity and stability in Eastern Europe through economic cooperation and development with the West challenges all policy makers. In the case of Canada, this challenge will require further policy initiatives, reflecting more new thinking about old support mechanisms and programmes.

NOTES

1 In this paper, the terms "Eastern Europe" or "area" will be used to refer to the seven European members of the Council for Mutual Economic Assistance (CMEA or COMECON) and the Warsaw Treaty Organization. They formed the core of what was long referred to as the "Soviet Bloc": Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and the Soviet Union. Two other East European states ruled by communist parties, Yugoslavia and Albania,

remained outside the Eastern alliance system, and accordingly were subject to rather different Western policy treatment.

2 Commercial relations with Czechoslovakia and Poland were governed by still valid prewar conventions and their membership in the General Agreement on Tariffs and Trade (GATT). Bilateral trade agreements were concluded with Bulgaria in 1969, Romania in 1971, Hungary in 1972 and the German Democratic Republic in 1983. In 1986, a Long-Term Agreement for the Development of Trade, Economic and Industrial Cooperation was signed with Czechoslovakia.

3 These included a Soviet-Canadian Protocol on Consultations, an Agreement on Cooperation in the Industrial Application of Science and Technology, and a General Exchanges Agreement, all signed in 1971, and followed later by a Financial Protocol (1975) and a Long-Term Agreement on Economic, Industrial, and Scientific Technical Cooperation (1976).

4 Maureen Molot and Fen Hampson (eds.), *Canada Among Nations 1989*, Carleton University Press, Ottawa, 1990, p. 7.

5 As a founding member of NATO, Canada has long participated in the consultative procedures of COCOM which oversees the Western strategic embargo against the East bloc. COCOM provides an informal forum for discussion and agreement on a mutually acceptable list of trade items subject to restriction on strategic grounds. While not binding, this has been regarded as a minimum list, with member countries free to impose additional controls. Under COCOM procedures, proposed exemptions from the agreed list must undergo a special waiver process. All NATO countries except Iceland are members of COCOM. Two non-NATO countries, Japan and Australia, are also members.

6 In official literature, External Affairs and International Trade Canada defines as "strategic" any "civilian industrial goods, equipment and technology which can be used to increase the military capacity of a nation." The control list also includes goods which are controlled for "national economic and foreign policy purposes."

7 With respect to the proliferation of ballistic missiles and relevant technology, seven Western industrialized nations, including Canada, took action in 1987 with the creation of the Missile Technology Control Regime.

8 Much of the growth of Eastern imports from the West in the 1970s was financed through Western official and commercial bank credits. As a result, by the end of the 1980s, the seven European COMECON countries had accumulated a debt to the West that exceeded $100 billion.

FURTHER READING

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